

HANDLING GROWTH, EXPANSION, AND DOWNSIZING



Sheet Metal and Air Conditioning Contractors' National Association

Handling Growth, Expansion, and Downsizing

Prepared under the supervision of the SMACNA Business
Management Education Committee 1991-1992

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Printed in United States of America
Second Printing 1996

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HANDLING GROWTH, EXPANSION, AND DOWNSIZING

Preface

There are only two things that can destroy a business—failure and success!!

Most contractors fully appreciate the impact of possible "failures"—such as the failure to generate new business, perform work on time and budget, control internal costs, etc. These are clearly recognized. However, often underestimated, are the dangers of success.

If you go back ten or twenty years and look at a listing of the top firms in an industry and compare this ranking with a current one, you will find that many of the companies that made the earlier list no longer appear. True, some were sold or merged with other organizations. However, a large number of them are no longer in business because they either failed to handle success (i.e. growth and expansion) or failed to respond to short-term downturns in the marketplace (i.e. downsizing).

The purpose of this manual is to:

Alert SMACNA members to the importance of "right sizing" their business (i.e. adjusting to the changes in the market place by either effectively handling growth and expansion during favorable times or "downsizing" their operations when economic conditions are weak, and

Highlight the steps that they can/should take to ensure that their organization moves ahead successfully in a manner which is compatible both with management's objectives and the company's resources.



Chapter 1

The Critical Stages of Growth

Introduction

Companies are dynamic organizations. They are forever changing. Furthermore, the world around them continually changes. And, as anybody who has started a firm and built it into a large operation will undoubtedly observe, companies go through a number of distinctly different phases or stages of growth.

Why is it important to recognize this fact? It is important for two reasons:

1. Each stage in the development and growth of a firm is associated with unique problems and pressures, and
2. Failure to prepare the firm for the transition from one stage to the next can be fatal.

Too often, contractors are very successful at a specific size or level of operation. If they were able to remain at this level, they would most probably continue to prosper for many years to come. However, it is very difficult (and essentially impossible) to stand still. Opportunities arise and, before management really appreciates what has happened, the company has moved on to the next stage of development. Unfortunately, in many cases, the organization itself (i.e. its people, skills and capabilities) have not changed. There is, therefore, an inconsistency between what the company is trying to achieve and what it is capable of achieving. Too often, this inconsistency can be disastrous!!

The Major Stages of Organizational Growth

Eric G. Flamholtz, in his excellent book on the growing pains of companies,* characterized the three major stages of organizational growth as follows:

Stage	Description	Critical Development Area	Approximate Organizational Size
I	New Venture	Markets and products	Less than \$1 million
II	Expansion	Resources & operational systems	\$1 to \$10 million
III	Professionalism	Management systems	Over \$10 million

* Eric G. Flamholtz, *Growing Pains: How To Make the Transition from an Entrepreneurship to a Professionally Managed Firm*, Jossey-Bass Publishers, 1990, Page 33.

Now, these transitions points aren't precise and they are not meant to suggest that, at exactly \$1 million in revenues, a company automatically makes the transition from being a new venture to an expansion or that, at \$10 million, the next transition occurs. These are somewhat arbitrary levels derived from experiences with different types of companies.* Some firms may face these pressures well in advance of the stated level and another considerably later—depending upon the nature and complexity of the specific business. As a generalization, however, problems and pressures begin to arise as a firm approaches these levels of operation.

From the point of view of understanding what happens to a contracting firm as it moves from stage to stage and approaches each of these transitions, Flamholtz' model provides a useful starting point.

Stage I—New Venture

This initial stage of a business runs from the formation of the organization through approximately \$1 million in annual sales. It is an extremely difficult time. The typical company has very limited resources (both financial and personnel) and, usually, no backlog of business. It is the fortunate contractor indeed which starts with a substantial, long-term project.

The primary focus of most companies in this stage is: survival. And, in order to survive, it has to generate business. Thus, much of the effort of the owner(s) is devoted to identifying potential customers (any customers) and to establishing its own unique place or niche in the marketplace. Upon obtaining a project, however, the emphasis switches over from sales to production. Now, the task becomes that of actually performing the required work.

And this highlights one of the major problems facing all new ventures, namely: the conflict between completing the current project and identifying and marketing for the next one. Since cash flow is usually a severe problem, personnel are hired only

* It is important to note that these transition points were derived primarily from working with manufacturing companies and one would expect some differences between industries. The general analysis, however, remains valid.

when the situation becomes critical . . . and then normally in a production role. Supporting activities, such as secretarial and bookkeeping, are generally performed by the owner (or a close relative) on a stopgap basis.

Some comments and observations about this stage of a firm's development are given in Example I:

EXAMPLE I—THE NEW VENTURE STAGE

"I started the business with a loan from my father-in-law and worked out of a small wooden building on a site behind the house. I had one truck and a couple of part-time guys. We were real small potatoes in those days . . . and we struggled for a long time.

"We started when business was really tight and so, when we eventually got a project, everything else stopped. We worked all hours in order to get the job done and satisfy the client. The project ended . . . and we didn't have any more business. We hadn't made a single sales call for nearly three months. It was like starting all over again.

"Looking back, we were very lucky. We had a major client right from the day we opened. The problem was that they were very slow payers. Every Friday, we looked at each other and asked the same question: 'how are we going to meet the payroll?' It was a tough period.

"My sister took care of the office and did the bookkeeping when she had time. We couldn't afford to hire anybody. Pam did a great job until we obtained a relatively large project and had to hire a dozen new people. She threw up her hands at that stage.

"Finding good people was a real bear. We had no reputation and thus didn't attract either the better foremen or workers. We hired some terrible people. In fact, I seemed to spend every weekend fixing things that somebody else had botched."

Stage I is a rough time for virtually all contractors or other start-up businesses. However, in one sense, the problems are reasonably straightforward and clear cut. If you don't grow, the firm goes under!!

Stage II—Expansion

For most firms, Stage II begins at about \$1 million in sales and extends to the \$10 million level. The firm has managed to survive

the initial start-up traumas and has usually reached the stage where it is operating profitably and has some cash reserves. More importantly, it has generally built up a visibility and reputation in the local marketplace and has learned how to compete. Potential customers now know who the company is and what it can do.

To a very large extent, the problems and pressures which occur during this stage depend upon the rate of expansion. If the company grows by a rate of only five or ten percent each year then it is far less likely to experience severe problems . . . and many would argue that a company which only grows at this rate (either by choice or as a result of market conditions) is a fortunate one. However, more often than not, the growing skills, visibility, and reputation of the company result in rapid growth . . . and rapid growth brings a rapid escalation of problems.

During this stage, the organizational resources become stretched to the limit. When, instead of just one or two small projects, the company obtains two medium-sized and one large one, the magnitude of the problems grow exponentially. The demand for people—both foreman/workers and supporting personnel—increases on a daily basis. Whereas, the company had two foremen, ten journeymen and apprentices, one secretary and a bookkeeper just a month or so before, it now needs four foremen, twenty-eight journeymen and apprentices, two and a half secretaries and two bookkeepers just to keep up with the demands.

However, problems arise not only in terms of personnel but also in terms of facilities and operating systems. The company discovers that, as a result of its growth, it needs additional office space, a larger fabrication area, more yard space, etc. It needs new equipment—ranging from another typewriter or computer to another set of welding units. It needs another truck, etc., etc. And it needed them yesterday!!

Furthermore, the operational systems which worked well just a few months before seem out of control. Field reports begin to pile up because nobody has time to handle them. Vendor bills are left unpaid. Invoices are not sent to customers. Meetings are not held on schedule. Hiring of personnel is delayed. The company's new business development program is put on hold. And the list goes on . . . everybody is under stress and, too often, begin to make mistakes.

As Flamholtz observed, "this is the stage where the horror stories begin to accumulate."* Some typical contractor comments relating to this stage are given in Example II.

EXAMPLE II—THE EXPANSION STAGE

"We were about two years into the business and things seemed to be going pretty well. We'd developed a good group of foremen, had, at long last, found an excellent job shop manager, and my brother had taken over the bookkeeping. So, I took a vacation!!

"I returned to find that the situation had changed dramatically. We'd been awarded one project which had to be completed within a very short time frame. And had also picked up a project four times as large as anything we'd previously handled. Overnight, we had doubled our annual revenues!! Looking back, I'm amazed at how rapidly things went down hill. Our well run operation became a disaster area!! "

"The first thing that indicated that we were in trouble was that we needed another dozen people . . . and nobody had time to sit down and write the ads and interview those who replied. We had to have them but couldn't find time to hire them.

"Then, we ran into a horrendous cash flow problem. Overnight, we found we were at our credit limit with the local bank and they wouldn't increase it. I took out a second mortgage on my house and sold a couple of properties—in order to be able to handle the growth."

"My cousin and I prided ourselves on the quality of our jobs. We felt we could beat other firms in the area on quality. And we did. Then, we began to grow. And quality suffered. We had people who didn't necessarily share our philosophies . . . and we weren't on top of things. The net result, and I'm not proud of this, was that our quality ended up being worse than that of some of our competitors."

* Ibid., page 37.

Stage III—Professionalism

As Flamholtz points out:

*Somewhere during the period of explosive growth that characterizes stage II, senior management realizes (or ought to realize) that a need for qualitative change in the firm is arising. The company cannot merely add people, money, equipment, and space to cope with its growth; it must undergo a transition or metamorphosis and become a somewhat different type of organization.**

Stages I and II are highly entrepreneurial in nature. While the company may have functioned in a very informal manner and been successful to this point in time, top management (of the average contracting firm) eventually recognizes that "things have to change". The size of the organization makes it impossible to continue (successfully) as an informal and unstructured entity.

Plans, policies and procedures have to be developed, implemented and followed. Top management has to recognize that it can no longer continue to grow without (a) appropriate long range plans and budgets, (b) effective day-to-day control of its operations, (c) an ongoing and systematic new business development program, and (d) the involvement of a growing number of skilled personnel who know exactly what their role is and are involved in the long term future of the company, etc.**

The transition from Stage II to Stage III is probably the most difficult for the average contracting firm because Stage III requires managers with a different set of skills and capabilities. Up to the end of Stage II, the owner(s)/manager can function largely in a hands-on manner and be involved in day-to-day

* Ibid., page 40.

** This is especially true of family-owned firms where key decisions have been made by family members. As the company grows, its continued success depends more and more on the active involvement and motivation of an increasing number of non-family employees. During Stage III, there has to be a transition in power (if not necessarily incorporating ownership) from the family to the new management team.

problems and issues. However, as the company grows, he/she has to become more and more a director of others . . . and thus inevitably becomes increasingly separated from the operational details. Many owners/managers never effectively adapt to the new situation. Many fail to develop the necessary skills and, as result, the firm experiences severe growing pains.

Some typical comments made by contractors with regard to the problems of stage III are given in Example III:

EXAMPLE III—THE PROFESSIONALISM STAGE

"My father started this firm just after W.W.II and did a fantastic job building it up. He got the best out of the work force by being involved and showing them how it should be done. Unfortunately, as we grew, his style of management became increasingly inconsistent with the needs of the organization. You'd schedule an important meeting and he didn't turn up. He gave instructions to a foreman which were the exact opposite of what I had just told them to do. In the end, we called in a consultant and he pointed out that we were running a major business like a small store. Things had to change."

"Back in '86, we did more business than I thought we'd ever achieve. Seventy percent up over the previous year!! And our after-tax profit was down nearly 50%!! So, we spent a weekend doing an analysis. The problem: we didn't have the systems and controls in place. We were bleeding to death!!"

"When my brother Alec had a heart attack a few years back, we needed somebody to take over his role. We looked around internally and discovered we didn't have anybody!! We'd never focused on developing our middle management personnel. So, we hired a guy from a competitor. He turned out well and, when my other brother retired, I offered him his job. He turned it down. He said he didn't see any long-term future with a family owned business. Obviously, we hadn't done a very good job of motivating our people."

"We'd never done any real strategic or long range planning. Nobody was particularly interested. Then, as the company grew, we discovered that we didn't know where we were going. We were just surviving on a month-to-month basis!! So, we sat down and developed a plan of action . . . and have done so annually ever since. Now, I quite honestly don't know how we lived without one. "

Conclusion

It is not unusual to come across a company that has, over a number of years, increased its revenues tenfold and seen its net profit after tax decline. Conceptually, this doesn't make sense and one has to ask the question: why?

The answer lies in the fact that, for a firm to successfully move from Stage I through to Stage III (i.e. effectively handle its growth and expansion), management has to fully understand and appreciate what happens to an organization as its size and revenues increase. The nature of the business (and the way in which it has to be managed) change dramatically. Furthermore, the management needs of the company change . . . requiring very different skills and capabilities.

There is a tendency (because of the pressures of daily operations) to assume that methods and approaches which were highly effective yesterday will be equally applicable tomorrow . . . and, too often, this proves to be untrue. Business and the business environment are continually changing and companies, if they are to be successful, have to evolve to meet the new challenges.

Chapter 2

Organizational Growing Pains

Introduction

There are two fundamental areas in which contractors (which are growing and expanding) experience problems. These can be described as organizational (i.e. relating to the management and direction of the company) and project-related (i.e. a function of the selection and handling of projects).

Managers of firms which have successfully made the transition from Stage I to Stage III (as described in the previous chapter) will invariably point out that the former is by far the more important (i.e. that their problems have stemmed from internal or company-related organizational problems rather than being project-related).*

The major growing pains experienced by contractors generally fall into one of five broad categories:

1. Failure to plan for tomorrow.
2. Ineffective hiring, handling and development of personnel.
3. Inadequate financial planning.
4. Lack of marketing and new business development.
5. Ineffective internal communications.

All five are vitally important (although each firm will have experienced them to differing degrees) . . . and thus it makes sense to look at each of them in turn:

Failure To Plan for Tomorrow

If you don't know where you are going, virtually any strong wind will get you there

Planning is critically important in any endeavor. A business has to have a sense of where it is going . . . and how it is going to get there. Sometimes, this involves looking three or five years into

* This probably gives a somewhat false impression since, while internal or organizational problems can be extremely frustrating, they do not normally have the potential to put the firm out of business. By contrast, the project-related problems can have that impact . . . and firms which have fallen badly into this latter trap may no longer be around to provide advice and insights.

the future . . . and, at other times, it means trying to decide how to reach the end of the month!!

Unfortunately, the skills of the vast majority of individuals starting a contracting business are functional. They start the business because they believe they have the ability to perform a specific task or provide a unique capability (i.e. they can do the job). Few individuals start a business with an emphasis on planning and those who do are usually rapidly swamped by the day-to-day activities and problems. This is particularly true in Stage I and the early part of Stage II when the average owner/manager wears many hats and resources are short. As a result, planning is either ignored or covered in a very superficial manner.

Among some of the comments made by contractors (with regard to the importance of planning) are those quoted in Example IV.

EXAMPLE IV—PLANNING FOR TOMORROW

"You have to have a plan. You have to think through how you will handle the growth and expansion of your company. I think this is one of the biggest mistakes firms in our industry make. They just don't emphasize planning."

"Some of our worst mistakes have been as a result of failing to plan. Instead of sitting down, discussing the issues, and developing a 'game plan' or strategy, we rushed straight ahead and paid the price. When we thought things through and had a plan, everything generally worked out fine. But, whenever we didn't plan . . . total disaster."

There are two key aspects of planning—long range or strategic planning and short-term planning—and both are important if a company is to grow successfully and thus avoid the critical growing pains.

Long range or strategic planning

Sometimes, these terms tend to frighten owners and managers. Their views can often be summarized by the phrase:

How can I tell what is going to happen in three years time? I don't know what is going to happen tomorrow!!

Very true. If we could predict the future with any accuracy, many of us would be in different businesses. But this misses the point of long range planning. It is not a question of what is going to happen so much as what you would like to see occur.

Each owner or manager must have a "vision"—a picture in his/her head as to what the business would, ideally, look like at the end of, say, three or five years. Why? The answer can best be illustrated by an example—given below as Example V.

EXAMPLE V—THE IMPACT OF THE VISION

Two individuals start up firms in the same business at the same time with essentially the same resources. The first decides to build up a local operation, employing a dozen or so people, and having total revenues of around \$1 million. By contrast, the second has a different vision. He sees the possibility of establishing a number of branches across the country . . . each employing twenty or thirty people. He sets a five year goal of \$20 million in revenues.

Will these two individuals each achieve their goals? Who can tell? The important point is that, in order to achieve their objectives, they will take totally different paths and actions. Their **vision** determines what steps they will have to take.

Long range planning is important at each stage of the company's development. At the startup or new venture stage of the company (Stage I), there should be a three or five year plan laying out its broad goals and objectives. Many business people make such a plan . . . and then promptly forget about it!! Before a business opens its doors, there is plenty of time for planning. Once the telephone is ringing and problems are arising, it is easy to put it aside. This can be a fatal mistake.

It is also vitally important during the expansion stage of the business (Stage II). Every few months, time has to be set aside to review what the company is doing relative to its game plan. And, once the company reaches the professionalism stage (Stage III), it continues to be important because the sheer size of the operation makes day-to-day management by key individuals all but impossible . . . and it becomes essential to utilize planning as a means of bringing the management team together and ensuring that all elements of the company are working towards the same goals.

Short-term planning

Short-term planning normally covers a one to three month period . . . and can focus on a number of different areas—personnel, financial, marketing, etc. (which are covered later in this chapter) and project planning (see Chapter 3). The important point here is that the company, through its shortterm planning, prepares for situations and problems before it finds itself in the middle of them. Example VI illustrates this point.

EXAMPLE VI—SHORT-TERM PLANNING

Fitzen Construction was a small sheet metal fabricator which had been in business for three years when it received two substantial orders. As Jim Fitzen, the owner explained:

"I was really elated and was ready to accept them both. They represented the opportunity we had been waiting for. But then our financial guy said 'We'll have to turn one down. We don't have the resources to do both.' That really shook me.

"So, we sat down and took a long hard look at our plant capacity, calculated how many people we'd need to add, determined the financial requirements, and did a cash flow projection. He was right and we turned one of them down. If we had taken both, I don't think we'd be in business today."

Overall, the successful contractor is one which recognizes the need to plan for tomorrow and follows the recommendations given below:

RECOMMENDATIONS I

- I Develop an annual long range plan covering the next three to five years . . . and use it as an ongoing reference document. Refer to it, and update it on a regular basis. Don't just prepare it and then ignore it.
- I Ensure that all key management personnel are actively involved in the planning process . . . and that they are in agreement with the final document. There is absolutely nothing to be gained from generating an annual plan to which nobody is prepared to make a meaningful commitment.
- I Prepare a quarterly short range plan covering the next three months . . . and determine (as well as can be projected) the company's needs in terms of personnel, cash flow, marketing activities, etc. . . . so that any surprises can be held to the minimum.

Ineffective Hiring, Development and Motivation of Personnel

This is essentially a people business. Without a good and conscientious work force, you're dead!!

Of all the organizational growing pains, the one most frequently stated as a major problem is that of dealing with personnel . . . and Example VII summarizes some typical comments made by contractors with respect to this area.

EXAMPLE VII—PERSONNEL-RELATED PROBLEMS

"Construction doesn't have the glamour of other businesses. Back in the forties, some top quality people chose the industry. Now, they go into cleaner service businesses. We don't see the numbers any more."

"It is extremely difficult to find good, qualified people these days at all levels and it seems to be getting worse. It used to be hard to attract good field personnel and foremen. But now it is also increasingly difficult to find capable middle- and upper-management people."

"Without question, we could have grown far more rapidly if we'd more skilled people. We've had to turn down projects simply because we didn't have the necessary supervisory personnel. You can't take on a project without a project manager or a foreman. Or, if you do, you're asking for trouble."

Ensuring that the firm has the necessary personnel is, as indicated earlier, a function of planning. However, it is also dependent upon effective hiring, development, and motivation of those individuals who are available to work for the firm.

Hiring of quality personnel

Too often, the hiring of personnel is done on the "warm body" principle. There is a gap in the organization . . . and thus an effort is made to hire somebody . . . anybody!! Quite often, this stop gap hiring is inevitable as additional business is generated. The problem is that this can be compared to putting a Band-Aid on a cut. It solves the problem but may only be a short-term remedy. It doesn't address the underlying issue.

The successful firms (in the long run) are those that look at hiring as part of an overall program of corporate personnel development. They try to avoid having to respond to crises by hiring on an ongoing basis so that they always have one or more individuals "on the bench" ready to step in when needed. Furthermore, they look at each hire not only in terms of his/her ability to perform the immediate job but also in terms of their potential for advancement as a result of additional in-house training and experience building.

These strategies are highlighted in some of the comments given in Example VIII.

EXAMPLE VIII—HIRING PERSONNEL

"You can never totally eliminate the need to rush out and hire a warm body. Emergencies will occur from time to time. However, we try to keep them to a minimum by always having an eye out for good people. Hiring is not something we do on periodic basis. It's continuous. And, if we find somebody we really want, we'll do our best to find a spot for them."

"We use a search firm whenever we can. True, we pay for that and some of the firms in that industry aren't terribly good. However, we feel that they are continuously in the marketplace, seeing people, and receiving resumes and thus have their finger on the pulse as to who is available."

"One of our major criteria when we hire anybody is: where do we think they will be in five years time? If we feel that they will probably be in the same position as they are being hired for, we will usually look around for another candidate."

Unionized firms have a special problem in that they rely on the local hiring hall for the majority of their field personnel and the quality can vary dramatically—especially when the local economy is strong and all firms are seeking to add personnel. Here again, successful firms employ a number of different strategies—as indicated in Example IX.

EXAMPLE IX —WORKING WITH THE UNIONS

"We have always been a unionized firm and plan to stay that way. So, we will continue to rely on the people the union provides and that, in turn, means that we have to support the union in any way we can to help them attract and train their people."

"Getting to know the local agent is important. Each of our regional managers is charged with the responsibility for ensuring that he knows the local union personnel and is on good terms with them. They represent our life blood . . . and we try to work with them."

"Whenever we can, we provide performance bonuses for our union personnel and encourage them to develop their skills and take on more challenging positions. Some don't want to do so but others mature and become valued employees of the company in management positions."

Developing personnel

Given the overall shortage of personnel entering the contracting business, it is vitally important that a company make the most of those it does attract and the successful firms are those which not only look at new hires in terms of their potential but actively and aggressively develop their capabilities.

As a firm moves through a period of expansion, it needs a growing number of skilled personnel and, in reality, it only has two choices. It can either rely on hiring an individual from another firm in the industry or it can develop its internal resources. Going outside the company has advantages in that new individuals usually bring skills and expertise not normally available and will thus be an incremental resource (i.e. will be in addition to the existing work force).

On the other hand, a search for a skilled individual can be time consuming (taking three or six months or even longer before they are in place). Furthermore, in addition to the actual cost of the search, it may take the new hire many months before they become familiar with the company's systems and procedures and thus are fully "up to speed."

Some comments, made by highly successful firms on the effective development of internal personnel, are summarized in Example X.

EXAMPLE X—MAXIMIZING THE USAGE OF PERSONNEL

"For years, whenever we needed a new project manager or foreman, we'd hire one from a competitor. And it seemed to be taking longer and longer each time to find a qualified individual. So, we decided to take a different approach, we looked at our existing personnel and focused on how we could develop and promote them."

"For every person in this company (and that includes me), we have what we call a skills and a career development plan. Each year, we identify what skills or capabilities the individual needs to develop. We also review where they stand in terms of their career plans and identify how far (generally in terms of months), they are away from being ready to move up. Everybody knows where they stand and, more importantly, where they are going."

"Whenever possible, we have one more person than we need. At the moment, we have an additional project manager. We could survive without Bob. But he is our 'ace-in-the-hole.' If we get another project in the next few months, he'll be there to take over. We also have an extra person in accounting who could handle a wide range of functions. We just believe in developing our own people."

"From time to time, we have an industrial psychologist talk with our people and evaluate them. It seems to work. Our marketing manager was originally a welder in the plant and our vice president for finance was a project manager. We shift people around if we think it makes sense."

Motivating employees

Many firms have a number of excellent people at all levels of the organization but their productivity is low relative to their potential. The problem is that they are just not motivated. They perform their jobs and, in exchange, they get paid. By contrast, firms which handle growth and expansion well are generally those which are able to generate the maximum productivity from their personnel at all times. When the demands on individuals are increasing, these companies can call on their people for even greater efforts. They aren't forced to immediately hire additional personnel.



What makes the difference? The difference lies in motivation. The successful companies are those that identify the fundamental interests and desires of their personnel and provide appropriate incentives which encourage them to perform above their normal levels. Some of the techniques used by leading firms are summarized in Example XI.

EXAMPLE XI—MOTIVATION OF PERSONNEL

"We have a very simple policy. If somebody does something which justifies a reward, we give it to them. It may just be a few dollars and a certificate or a major bonus. The key point is that we do recognize them and we do it rapidly."

"Everybody in this company is on a bonus program. Even the newest employee on a site or in the plant, has the potential to make a substantial bonus if we (as a firm) are successful."

"My father started what he called a 'pissed as hell' meeting in his office at the end of work on Friday afternoon. Anybody could come in with a problem. Dad said it was the best way to find out if somebody wasn't motivated. Then, he would take them aside and see what was going on. It works, we've always had a very low turnover rate."

"We're a family owned company and don't plan to offer ownership to employees any time in the near future. However, our people are our greatest resource and we bend over backwards to satisfy their desires and interests. If it will motivate one of our employees, we'll try to implement it."

Among the steps taken by successful and growing contractors—with respect to the hiring, developing and motivating of personnel—are those summarized below in Recommendations II.

RECOMMENDATIONS II

- Make hiring of good people an ongoing activity . . . and make the most of your opportunities to add to the resources of the company.
- Be involved in the hiring process. Don't pass the task off to somebody else.
- Try to have at least one individual "in training" in key departments at all times.
- Work closely with the local union staff to help them attract and develop skilled and motivated personnel.
- Develop your own personnel . . . have a "game plan" for every employee along with a program of training and development.
- Find out what each employee wants to achieve . . . identify their personal "hot button" so that you know how to motivate them to do their very best for the company.
- Work continuously at building your personnel into an efficient and effective team.

Inadequate Financial Planning

The key is remembering that it isn't the money you have in the middle of the game that's important as how much you have left at the end

Contractors experience financial pressures irrespective of the stage of growth. Some of these problems, such as generating adequate cash flow to cover the ongoing costs, can surface almost immediately with the formation of the company and can continue to plague management for many years to come . . . with only the magnitude or severity of the problem changing as the company grows. Other financial issues or problems may arise at certain points in time and, after resolution, disappear for a number of years before reappearing and once again becoming a critical issue.

The five major financially-related danger areas (which can dramatically impact a firm's ability to grow and expand) are those associated with (a) cash flow planning and the control of accounts receivable, (b) the implementation of accounting systems and procedures, (c) the development of operating and

capital budgets, (d) controlling corporate overhead expenses, and (e) maintaining adequate bonding capacity. Each of these is important because failure to handle them in an appropriate and timely manner may severely limit the firm's ability to move through the growth stages.

Cash flow planning and control of accounts receivable

Strange as it may seem, even a highly profitable and growing firm may well find itself on the rocks because of cash flow problems. Even though the company has a satisfactory number of existing projects and a substantial backlog of business, it may not be able—in the short run—to generate the necessary cash flow to cover its operating expenses.

This problem which arises for two basic reasons, namely: lack of cash flow planning and failure to maintain control of the firm's accounts receivable, is illustrated in Example XII.

EXAMPLE XII—CASH FLOW PROBLEMS

Henderson Sheet Metal was enjoying its best year ever. As Bob Henderson explained:

"Business was booming and our backlog was fantastic. We were really looking forward to a great year. Then, we found that we had to go to the bank to just cover the payroll for a couple of weeks in a row. We were spending money considerably faster than we were collecting it.

"And that was just one of the problems. We had taken our eye off the ball. We weren't focusing on the cash flow issue. We assumed that, because business was so good, we were in good shape . . . and we were if we could survive. Our accounting people were so busy that they were either not sending out the bills or not following up when we didn't get paid. One new and large client was especially slow in paying their bills.

"We sat down and did a detailed cash flow projection for the next three months and realized that we were in deep trouble. So, we did two things. First, we began talks with the local bank and eventually persuaded them to increase our line of credit. Second, we put one of our better people in charge of accounts receivable. And we survived. However, we were very close to going out of business."

The implementation of accounting systems and procedures

Most contractors start out with a relatively simple and informal accounting system since there are usually a limited number of customers, vendors, employees, etc. and thus the number of transactions and entries tends to be manageable. However, as the company increases in size so does the amount of paperwork and the problem can become acute and the firm can very easily find itself with an accounting system which is no longer capable of meeting its needs.

What are its needs? An accounting system is a means of providing information as to where the company stands with regard to its business operations. If the firm's systems and procedures no longer provide management with timely and accurate information on its accounts payables, accounts receivables, and the profitability of the ongoing projects then it needs to be revamped.

One of the key points to recognize is that a company may utilize a number of different accounting systems with each working well at different stages of the company's growth. This point is illustrated in Example XIII.

EXAMPLE XIII—CHANGING ACCOUNTING NEEDS

"When we first started the business, our accounting was very simple. Everything was recorded by hand in a number of ledgers. And that was fine for a number of years. There was nothing wrong with that system except that we outgrew it.

"Next, we went to a very simple computer-based system. And here we made a bad mistake. Working with our existing personnel, we tried to go from the old system to the new essentially overnight . . . and fell flat on our faces!! We were lucky that business slowed down dramatically for a time giving us an opportunity to catch our breath and get up and running on the new system!! If it hadn't, we would have been in serious trouble. What we should have done was to hire somebody who knew the computer and maintain parallel systems for six months or so.

"Since then, we've gone through two or three different systems . . . each one utilizing a larger computer and more software with far greater capabilities. As we have grown, our requirements have changed.

"The larger we get, the more information we seem to need. In fact, we really ought to generate even more information on the status of our projects and thus will be looking at changing our system again fairly soon.

"What we have learned over the years is that you have to regularly evaluate your accounting systems and procedures to make sure that they continue to provide the level of data and reporting that you need to be successful."

Development of operating and capital budgets

Failure to develop appropriate annual budgets (both operating and capital) can be another potential cause of disaster for a growing contractor. Too often, budgeting is regarded as being either something that is handled by the accounting staff (independent of the operating personnel) or as an exercise to be completed as rapidly as possible with a minimum of effort. Little could be further from the truth. Budgeting, as indicated in Example XIV, is a vitally important activity.

EXAMPLE XIV—THE IMPORTANCE OF BUDGETING

"A few years back, we prepared our annual budgets in a very short time frame. Nobody really devoted a great deal of effort to the activity. Accounting simply threw some figures together . . . and then everybody forgot about it.

"By mid-August, we were in deep trouble. Although revenues were right on target, our profit margins were way down and our bank accounts looked as if they had been attacked by piranhas. Departments had hired people as if there were no tomorrow so our labor costs were out of sight!! And our capital expenditures . . . equipment had been purchased without any consideration to the original budget. We survived by the skin of our teeth that year.

"The following year, the budgets were developed on a very different basis. We made sure that all managers both understood the process and were involved in it. We developed projections on a departmental basis and then added them together for the company as a whole. We then revised the figures and gave them back to the managers and told them that they would be evaluated vis-à-vis their own budget.

"True, we ran into some problems. We had to buy equipment that we hadn't planned for and a couple of departments had to hire some unanticipated personnel. But we looked at each of these situations very carefully before giving the go-ahead. We were on top of things all year long."

Controlling corporate overhead expenses

It is very easy, when a company is going through a period of growth and expansion for a firm's corporate overhead to far out run the rate of growth of all other expenses. This is particularly true if (a) the firm has experienced rough times for a number of years or (b) is a family-owned firm. There is a built-up pressure to enjoy the "good times" while they last!!

There are numerous ways in which the corporate overhead creeps up. Substantial bonuses are paid. Additional corporate (and nonrevenue producing) personnel are hired. Management decides to lease new and expensive office space and/or replace the aging company cars with something a little more luxurious. The entertainment budget goes through the roof as tickets are purchased for sporting events. Everybody seems to be scheduled for at least one if not two seminars to be held in locations with either outstanding beaches or first rate snow.

Per se, there is nothing wrong with any of these expenditures. However, the underlying problem is that expenditures implemented during favorable times are often very difficult to reduce or eliminate when business turns down. They become fixed expenses!! People's expectations are raised and you have the situation described in Example XV.

EXAMPLE XV—RAMPANT CORPORATE OVERHEAD

Broward & Son had been a marginal business for many years. When it eventually picked up a couple of large projects, it generated a profit after taxes considerably greater than anybody had expected. As Peter Broward observed, management set about the task of spending the windfall.

"Our accountant told us to put most of the money into a certificate of deposit for a rainy day. But my brother and I had struggled for so long that we wanted to spend it. We rented a brand new building just down the road and hired a couple of new vice presidents. We also paid ourselves (and everybody else) some very nice bonuses.

"The problem was that, the next year, business dropped back to the previous level. And we were stuck with the mortgage payment on the new building, the lease payments on the new cars, and the new benefits package we introduced for everybody. We went 'belly up' at the end of the year."

Maintaining adequate bonding capacity

As a company grows from stage I through stage III, its bonding requirements also increase. Failure to maintain an adequate line may well limit the firm's ability to take on new and additional projects. This point is made very clearly in the Example XVI.

EXAMPLE XVI—ENSURING ADEQUATE BONDING CAPACITY

"Some bonding companies get very nervous as you get larger . . . and that can cause problems. You are relying on them to provide you with the necessary coverage and, all of a sudden, they indicate that they can't provide it.

"The key to dealing with bonding institutions is to really get to know them and their capacity . . . and to let them know well ahead of time what you will be needing. They don't seem to like surprises and many of them don't like having to move rapidly.

"We try to work with one main firm and one back-up. It's a bad mistake to put all your eggs in one basket. You need to have a secondary source.

"Also, it is important to negotiate both a single project limit and a total line . . . and, as I say, let them know as soon as possible if you think it is likely that you will need a substantial increase."

Recommendations III summarizes some of the key steps a contractor can take to get on top of the accounting and financial planning issues.

RECOMMENDATIONS III

- Get into the habit of maintaining cash flow projections . . . and update them on at least a quarterly basis.
- Assign responsibility for handling accounts receivable . . . make sure that somebody is on top of them at all times.
- Review—on a regular basis—the company's accounting procedures to make sure that they are providing management with all the information it needs . . . and recognize that the system may require an overhaul from time to time.
- Develop annual operating and capital budgets and ensure that all key personnel are involved in the process and are aware that they will be evaluated and compensated vis-à-vis these budgets.
- Evaluate—on an annual basis—the corporate overhead structure . . . and analyze whether or not its level is appropriate and realistic.
- Maintain close contact with your bonding company (with at least one back-up) . . . establish a single project limit and an overall line . . . and make sure that the company is fully aware of any impending changes in your requirements.

Lack of Marketing and New Business Development

Completed projects are past business. You have to continually market your services and develop new business opportunities.

New business development (or, more accurately, the lack of it) can represent one of the major growing pains for a contractor. In Stage I of the organizational growth, not only does the firm need to generate relatively few additional projects each year to maintain its volume but it can also be handled directly by the owner or manager.

Unfortunately, the larger the company becomes (i.e. as it moves through Stages II and III), the greater the need to generate both more and larger projects. At the same time, the owner or manager is becoming increasingly involved in handling a wide range of complex problems . . . and thus has less time to focus on marketing the company's services and capabilities. As a result, new business development is either pushed to one side or passed on to divisional or departmental managers who, in many cases, are neither trained as marketers nor have the time to devote to calling on potential clients. Example XVII illustrates the sorts of problems that many contractors face at one stage or other of their development.

The key to effective marketing and new business development is that management (a) recognize the importance of the activity to the future "health" of the company, (b) determine who (either from within the current organization or through hiring from outside the company) is going to be fully responsible for taking the lead in this area, and (c) develop and implement a systematic and ongoing program.

This last point is critical. Successful firms are those which have a clearly developed game plan and implement it on a consistent and systematic basis. Marketing and new business development are not activities which can be turned on and off like a light switch. They have to be an integral part of the company's operations and, as it grows and expands, the function becomes increasingly important.

EXAMPLE XVII—AN ABSENCE OF MARKETING

Hill-Fox was a successful old line business. In the early days, Alan Fox Sr. had done all the business development since he knew virtually all of the local business leaders and liked entertaining them.

When Alan Fox, Jr. took over running the firm, marketing was becoming increasingly important. Mr. Fox, Jr., however, was not really interested in socializing with potential customers. He was more comfortable as an internal manager. As a result, the company's new business development efforts fell on the shoulders of the four department heads . . . and marketing became a largely intermittent activity. They pursued it when they had time.

Finally, when Alan Fox III assumed the reins of the company, Hill-Fox was in decline and relying very much on its past successes. The new president was an accountant by training and, like his father, was not particularly comfortable with the marketing role. However, he recognized that somebody had to do it and that it wouldn't get done if he relied on the department heads. The company needed new business and thus needed somebody who was prepared to devote their full-time to this activity. No internal candidates presented themselves so the company hired an external individual who knew the local industries.

In Mr. Fox's opinion, the company's current healthy state is due to the revitalized and systematic marketing and new business development effort.

In order for a contractor to grow successfully through each of the stages of growth, it has to market its services and continually develop new business. Some keys to this activity are summarized in Recommendations IV.

RECOMMENDATIONS IV

- Recognize that marketing and new business development are vitally important if the company is to grow and expand successfully . . . and that it has to be a systematic and ongoing activity.
- Designate one individual as the vice president for marketing and business development with prime responsibility (preferably full-time) for ensuring that these activities are pursued effectively.
- Make sure that the individual selected for this position is the right person (i.e. somebody who truly enjoys entertaining and meeting people).

Effective Internal Communications

A successful firm is one in which communications flow effectively both from top to bottom and vice versa.

One of the inevitable penalties of growth and expansion is that the level of internal communications invariably declines . . . for obvious reasons. In a small Stage I company, everybody shares the same office space and sees each other on a daily basis. Good communications are relatively easy to maintain.

However, by the time the typical contractor reaches Stage III, the situation is very different. Project personnel can be spread over a wide geographic area and may never see each other for months on end. Even supporting personnel are now working in clearly delineated departments—possibly on different floors of a building or even at different locations. They may not have an occasion to interact with each other with any frequency. Example XVIII gives an example of the sort of problems that arise.

The key to effective communications is determining what needs to be communicated and how the transfer of information will occur. Many items can be summarized in the form of a memo. Others require a face-to-face meeting. If, for example, it is vitally important that the firm's project managers get together with the vice president for marketing at least once a month then a meeting must be regularly scheduled . . . and top management must take responsibility for ensuring not only that they do occur but that they are effective.

Good and consistent communications are critically important in firms which are growing and expanding . . . especially for those that open offices or branches at a distance from the head office. The people who are effectively running their own small business must feel that they are an integral part of the whole and important to its success. If they do not, then the company may be sowing the seeds of disaster.

EXAMPLE XVIII—COMMUNICATIONS AND NON-COMMUNICATIONS

Brightwell Construction always prided itself on being "one big happy family." For years, old Mr. Brightwell claimed he knew everybody that worked for the company by name. But that was when the firm was relatively small. Today, Brightwell has five offices in three different states . . . and communications have become a serious problem. As the chairman, Vince Hagan, commented:

"Last month, we managed to get the branch managers together in one room for a day and we're amazed to find out what they knew and, more importantly, what they didn't know. Some were aware of everything that was going on within the company and others might as well have been in Australia.

"Also, and this was vitally important from a corporate perspective, we discovered that, although we had established standardized company policies and procedures, some followed them and some did not. One new guy didn't even know we had them!!

"We then gathered together the accounting people. They are in just two locations and yet many had never met their counterparts. Even within one department, there were individuals who had never really spent any time talking with others. It was quite amazing. I am sure we'd find exactly the same thing if we brought together all the project managers and supervisors."

Some of the key techniques for maintaining effective communications are summarized in Recommendations V.

RECOMMENDATIONS V

- Conduct a meeting to identify the company's primary communicational needs . . . and prepare a list of what must be communicated and on what schedule.
- Establish a regular program of meetings (bearing in mind that meetings take up time and unnecessary meeting can produce frustration and irritation) . . . and stick to the schedule.
- Make sure that those meetings which are held are well-run and that all participants are aware of the outcome and their responsibilities to follow up.
- Place maximum emphasis on both communications from top management down and from the bottom up.
- Make sure that there are effective mechanisms in place for all employees to make their views known and to discuss problems.

Chapter 3

Project-Related Mistakes

Introduction

Growth and expansion (and the passage from Stage I through Stage III) invariably means taking on either an expanded number of projects or substantially larger projects . . . and both pose serious danger to the "health" of a contractor. More importantly, if this growth is not handled effectively, the "sweetness of success" can rapidly turn into the "disappointment of failure."

The problem with project-related growing pains is that, like those related to the organization, they tend to creep up on management. It is very easy to perceive growth as merely doing the same things only more of them. And that is just not true. As the organization increases in size and its personnel become increasingly spread out, not only do different problems arise but also it becomes more and more difficult to focus in on resolving them.

Contractors who experience growth and expansion generally fall afoul of one of five major project-related growing pains:

1. Allowing quality control to slide.
2. Accepting substantially larger projects than normal.
3. Expanding outside familiar geographic areas.
4. Taking on projects outside the firm's field of expertise.
5. Failing to control project profitability.

Once again, it makes sense to look at each of these in turn:

Allowing Quality Control To Slide

It is vitally important to maintain quality. If the customer isn't satisfied with the final result, you are in deep trouble.

No company that prides itself on the quality of its products and services starts out with the conscious intention of letting it slide. And yet, as a company grows and expands, quality begins to suffer—as the observations given in Example XIX suggest:

EXAMPLE XIX—LOSING CONTROL OF QUALITY

"When we were a relatively small firm with just three or four projects all within a short distance of the office, I'd be on each site at least once or twice a week and would personally check on the quality of the work being done.

"However, as we grew larger, it became harder to maintain the same degree of control. So, I divided the responsibility with another experienced project manager . . . and that worked for a time. Then, we took on a very large project out of state which kept both of us very busy.

"And the quality of some of our other projects began to suffer badly. One of our best clients complained that we weren't doing a good job for him. And he was right. We weren't. There were only so many hours in the day and we didn't have time to keep on top of everything.

"We found that, although top management was very quality conscious, this concern did not extend throughout the company. As long as we were around to enforce the standards, everything was fine. But when we weren't, we really didn't have the people or the systems to ensure that every project met our standards."

Probably the key to maintaining the quality of the firm's projects is to recognize the fact that quality control will decline unless specific steps are taken to ensure that it doesn't. Some of the key steps that a firm can take are summarized below in Recommendations VI:

RECOMMENDATIONS VI

- Recognize that quality control is a critical ongoing responsibility, and that it will decline if not carefully monitored.
- Continually "preach" the importance of quality to all supervisors and foremen . . . with periodic meetings and programs designed to reinforce awareness of the fact that the company is committed to quality.
- Make sure that there are systems and procedures in place which enable management to rapidly and continuously monitor quality.
- Institute a program providing incentives or bonuses for quality for all site personnel.



Accepting Substantially Larger Projects Than Normal

The worst mistake we ever made was to take on a project which was much too big for us. It was a killer.

A firm that has been handling projects in the \$50,000 to \$100,000 range takes on a \$300,000 project. One that is comfortable handling \$1 million dollar assignments takes on one four times as large. This is not automatically disastrous. Each year, many firms successfully make the transition from one level to the next. However, stepping up in terms of the size can pose serious problems since it places increased strain on all areas of the organization.

Some of these pressures are reasonably obvious even when the company is engaged in estimating and billing the project (e.g. the need for additional field and shop personnel, increased plant capacity, etc.). However, other potential pressures and stumbling points—such as the complexities of scheduling a substantially larger work force, the handling of a far greater number of vendors and purchase orders, and the scheduling of meetings—are far more subtle . . . and far less easily recognized at the start of the project. Unless in-depth planning precedes the initial bid, they are likely to become only apparent when the project is under way . . . and it is too late to turn back.

A typical case situation is given in Example XX.

EXAMPLE XX—THE PROBLEM OF INCREASED SIZE

"The job for Hastings-White was a great opportunity. We hadn't expected to get it since it was much larger than anything we'd done before. However, we felt we had the people and technical skills to handle it. Events proved otherwise.

"We put together our best team but H-W wasn't satisfied. They wanted more experience on site so we had to hire a man who proved to be less than perfect. Then, we discovered that, because of the size of the project and H-W's requirements, we had to hire outside experts to do a number of things that we had expected to do ourselves. That was expensive.

"Estimating and purchasing were the next headaches. There was so much more work to be done and our people began to complain . . . and make mistakes. And we started to have problems in the shop. We had badly underestimated the volume we'd have to produce. We couldn't handle it all so had to subcontract some of it . . . and we didn't have anywhere to store all the materials we did produce.

"Then, we ran into problems coordinating and scheduling everything on site. Our systems, which worked well earlier in the year, began to prove inadequate. And the meetings with the owner and other contractors were ten times as extensive as anything we had experienced before. And the paperwork!! We seemed to be drowning in paper.

"With smaller projects, we moved along on schedule. With this one, we didn't seem to be making any progress at all . . . and that made H-W very unhappy . . . which added to the stress on our people. Finally, we ran into cash flow problems. We'd never had any trouble before even when dealing with slow paying clients. H-W wasn't too bad but the outflow was so much greater. We eventually managed to increase our line of credit . . . and survived . . . but only just!!

"We lost our shirt on this project!! And it set us back quite a bit. In fact, we didn't tackle another large project for many years."

In handling the growing pains associated with handling substantially larger projects, the contractor should follow the recommendations given in Recommendations VII:

RECOMMENDATIONS VII

- "Red flag"—for extra, in-depth analysis, evaluation and review—any projects which are twice as large as anything previously handled.
- Try, wherever possible, to replace the optimism associated with the possibility of obtaining the project with a sense of reality (i.e. don't get carried away by the opportunity).
- Conduct a thorough evaluation of the requirements of the project in terms of personnel, shop capacity, financial resources, accounting, and other supporting services.
- Sit down, wherever possible, with the company requesting the work and thoroughly discuss not only how they see it proceeding but, more importantly, what specific and special requirements they may have.
- Involve the entire management team in the evaluation of the project—especially those individuals (project managers, supervisors, foremen) who would be responsible for on-site management.
- Conduct a worst case scenario analysis (i.e. what possibly could go wrong and, if everything did go wrong, what would be the impact on the company).

Quite obviously, every contractor (if they are to grow) has to take on large projects (relative to the previous orders) at one time or another. The successful firm is one which looks at such projects very carefully and is smart enough to walk away when the odds are against it.

Expanding Outside Familiar Geographic Areas

Stay at home is my advice!! We've done projects in other states and we've opened our own branch offices . . . and it is very hard to do either successfully.

Every firm that grows, expands and builds up its reputation will eventually find itself considering a project well outside its normal geographic area. This may occur for three basic reasons:

1. The local market area is depressed.
2. An existing client may invite the firm to work for it at another location.
3. The reputation of the company in a specific market niche may attract the attention of firms outside its normal area.

The major problems associated with accepting a project in a geographic area with which the firm is not familiar are:

1. Inaccurate bidding due to a lack of familiarity with local business practices and the productivity of the labor force.
2. Labor troubles resulting from the absence of a working strong relationship with the local union organizations.
3. Appointment of a relatively unskilled individual to assume responsibility for the project.
4. A lack of attention from the company's senior management.
5. Inadequate reporting procedures and systems.
6. Poor productivity due to the quality of individuals available in local union hiring hall.

Each one of these problems can result in the company finding that there is a very real difference between running a project in a different geographic area than managing an identical one in the local area—as illustrated in Exhibit XXI.

EXAMPLE XXI—GOING ASTRAY

Hipper & Sons had always worked for clients within a fifty mile radius until, in 1990, it was approached by its largest customer and ask to perform exactly the same work at the main plant (three hundred miles away) as it had at the local facility. Jim Branch, the vice president, explains what occurred.

"We didn't have a senior person available to handle it and thus had to send a young project manager (Tom Parsons) with the understanding that I would provide the back-up support.

"Within days, Tom called to say that we had two serious problems. First, the local unions didn't welcome us into their area and thus we found it very difficult to get good people . . . in fact, we seemed to get the worst. Second, the site was a very different one from that we experienced locally . . . which caused major logistical problems. Making things worse was the fact that I was very busy and didn't get over there more than twice a month and our project reporting system just wasn't good enough to tell us how badly it was going.

"The result:—our least successful project. More importantly, we seriously hurt our reputation with our number one client!"

To avoid these problems, the successful contractor adopts the steps suggested in Recommendations VIII.

RECOMMENDATIONS VIII

- "Red flag"—for extra analysis, evaluation and review—any projects outside the firm's normal geographic area, more than a specific distance from the head office or, in the case of a union company, outside its normal locals.
- Only accept a project at a distance when the firm can either "piggyback" on the resources and relationships of the client or another contractor or is prepared to establish a branch office in the area with a senior individual willing to learn the local marketplace and make a long-term commitment to the area.
- Allocate additional time to evaluating the characteristics of the site and to identifying any unique problems and situations.
- Assign a member of the top management team the responsibility for coordinating and monitoring the progress of the project . . . and ensure that this individual visits the site on a regular basis and reports weekly on its status of the project.

Taking On Projects Outside the Firm's Field of Expertise

We tried expanding into metal building siding business . . . and found that it was a totally different business. It was extremely labor intensive . . . and we lost a lot of money before we decided to get out.

There is always a temptation to take on projects outside the firm's historical range of activities for two reasons:

1. As a response to the continuing pressure to generate new business, and
2. As a result of the belief that, given the company's broad base of skills, one project can't be greatly different from another.

As a result, it is not uncommon to see a firm that has specialized for years in satisfying the needs of industrial clients suddenly accepting work on a hospital or high rise building. Sometimes,

this is inevitable. The company's current market niche "evaporates" for period of time leaving it with no alternative but to find new markets.

However, the point that management must recognize is that there is a learning curve associated with each new activity . . . and it is unrealistic to expect that, overnight, the firm can successfully handle a project outside its traditional field. Over time, there is no reason why it can't develop a successful program in the new area. In the short run, however, it must recognize that it is, in effect, starting business anew . . . and thus must budget and plan for higher than normal costs.

Some examples of the problems which a firm can face when moving in new segments of the market are illustrated in Example XXII.

EXAMPLE XXII—VENTURING INTO NEW AREAS

"Traditionally, we had always functioned solely as a subcontractor taking a small part of a large project. Then came the project with Hayes Engineering and one of our managers suggested that we take the leading role. My initial reaction was negative. However, the more we thought about it, the more attractive it looked so, with grave reservations, we bid the expanded role.

"Well . . . let's say it was a learning experience. It came out reasonably well in the end but it wasn't really worth the effort. We didn't have the necessary skills (as a company) to pull together all the subcontractors and make sure that the project ran smoothly. We ended up managing by crisis."

"We had handled the sheet metal work for a number of small office buildings and never really planned to move out of that field. However, business was very slow for a couple of months and, when a local hospital requested bids, we went after it . . . and, much to our surprise, ended up being the low bidder.

"We later found out that our bid was 20% under the competition . . . and that was the problem. We'd grossly underestimated the labor costs. Even if we had estimated them accurately, I don't think we would have been on budget. It was a totally different type of project and we never really did get on top of it."

Any action which has the potential to place the future of a company in jeopardy has to be very carefully evaluated. This is not to suggest that risks shouldn't be taken—especially if, long term, the additional skills and information will provide the firm with an additional competitive edge. However, any firm considering bidding on a project which would take it out of its traditional fields of expertise should review the following recommendations:

RECOMMENDATIONS IX

- "Red flag"—for extra analysis, evaluation and review—any project which involves entry into a business or market segment in which the company has not previously had any substantial experience.
- Only bid the project if at least one member of the top management team is prepared to be actively involved in the day-to-day direction and supervision of the project.
- Consult with others in the industry (who are experienced in handling projects in the target field or segment) to determine the unique characteristics of these contracts.
- Conduct a thorough evaluation of the requirements of the project in terms of personnel, shop capacity, financial resources, accounting, and other supporting services.
- Involve the entire management team in the evaluation of the project—especially those individuals (project managers, supervisors, foremen, etc.) who would be responsible for on-site management... and gather their insights as to the feasibility of the company's successfully handling the project.
- Conduct a worse case scenario analysis (i.e. what possibly could go wrong and, if everything did go wrong, what would be the impact on the company).

Failing To Control Project Profitability

The bigger the firm becomes, the harder it is to really control project profitability.

As pointed out earlier in this manual, the larger a company grows (in terms of its projects, personnel, vendors, etc.), the more difficult the task of effective management becomes. While it may be possible to maintain control of the profitability

(during Stage I) of one or two small projects generating only a limited amount of paperwork and information, controlling the profitability of numerous projects (in Stage III) becomes an information and paper intense activity.

Too often, contractors lose sight of the fact that the profitability of a project (over and above any bid or agreed amount) can only be dramatically influenced by one of two things, namely:

1. Buying out the materials below the estimated cost, and
2. Performing the work more effectively than has been projected.

Purchasing then becomes a key activity if the firm is to maximize the profitability of the project . . . and this is generally recognized since it is relatively easy to identify the cost savings. Job-site productivity is rather more difficult to measure and control . . . and yet it is here that the bottom line can be dramatically impacted. If the contractor can minimize labor costs and maximize the productivity of the work force then it is well on its way to achieving its optimal profit margins.

However, if you look at firms which are struggling with their project profit margins, you will often find a number of common characteristics:

1. Project planning is cursory or superficial.
2. Field reporting and data gathering is limited.
3. Weak or ineffective systems and procedures.
4. Inadequate feedback to the estimating personnel on the accuracy of the original estimates, and
5. Motivation of their personnel is insufficient to generate the necessary operation-wide emphasis on bottom line profitability.

Some examples of loss of project control are given in Example XXIII.

EXAMPLE XXIII—EVAPORATING PROJECT PROFITABILITY

"In the early days, controlling project profitability was relatively simple. We only had a few projects and they weren't very large. In any case, I talked to the foreman daily and, even if his reporting wasn't too accurate, I knew what was going on.

"Now, we are one of the leading firms in the area and it has probably been the better part of a month since I was out on a site. So, in effect, the division managers and I are forced to rely on the reports that come in from the field to get a good sense of where the project stands.

"The trouble we are having is that the reporting just isn't good enough. The foremen and supervisors fill in the forms but they are either inaccurate or late. It is like looking through a dirty telescope. Things get out of hand. We need better information to work with. It has to be more accurate and more timely."

"The problem we face is that most of our projects are bid on a competitive basis and, in order to get the contract, we cut our margins to the bone. Now, if we only make what we built into the bid, we'd soon be out of business.

"Unfortunately the people both in the shop and out in the field don't always understand that. They are not really bottom line oriented. We have some great people but sometimes I think they feel we're making our fortune . . . and we're not!! And many of the field people believe that reporting is just something which top management has thought up to annoy them. They don't understand how important it is."

As suggested in Recommendations X, the keys to the successful management of project profitability lie in developing appropriate systems and procedures . . . and ensuring that all personnel are motivated to fully utilize them.

RECOMMENDATIONS X

- Clearly identify what specific information management needs for the effective control of the profitability of projects . . . determine what you need to know and on what basis.
- Communicate these information and data needs to all project managers, supervisors and foremen . . . and make them aware of the critical nature of the reporting function.
- Conduct periodic training programs for all line management and supervisory personnel explaining the key elements of their reporting responsibilities.
- Develop and implement an effective project manager's manual clearly delineating responsibilities . . . and incorporating a complete set forms, reports, etc.
- Provide financial incentives for field personnel based on their performance in controlling their project costs.

CHAPTER 4

Downsizing

Introduction

"Downsizing" (which originally became popular in the late 80s) is the name given to the concept of responding to downturns in the marketplace (and hence a reduction in the company's revenues) by eliminating or reducing non-essential expenditures. In more recent times, it has become one element of the broader concept known as "right sizing."

Right sizing emphasizes that companies are in a continuous state of change and thus are continually adjusting their size and organizational structure to match the needs of the marketplace. For example, one year, a company may be expanding (and thus is concerned with the problems of growth) and the next it may be experiencing the need to downsize (to adapt its operations to reduced market opportunities).

The observations of some contractors with regard to downsizing are given in Example XXIV:

EXAMPLE XXIV—THE REALITIES OF DOWNSIZING

"Downsizing has become a fact of life . . . and we are going to have to live with it. When I first started as a contractor, companies were moving into this area and developers were building all over the place. Now, most of the developers are bankrupt and the local firms are cutting back rather than expanding. So, we are going to have to be much smarter in the future."

"Downsizing is not easy. In fact, it can be very, very tough. It takes a lot of careful consideration . . . and can lead to some painful conclusions. We did an analysis a few months ago and discovered that a relatively small drop in sales volume would require a substantial reduction in our fixed expenses."

The Key Elements in Effective Downsizing

To handle the impact of a declining market, management needs to:

1. Recognize the warning signals.
2. Understand the company's variable costs (i.e. what can be downsized), and
3. Implement the appropriate steps.

The difference between success and failure in business can often be relatively small . . . and failing to respond appropriately to changing market conditions can be potentially fatal. The successful contractor, therefore, is one that appreciates this fact and thus continually monitors the "health" of both the local economy and the company itself.

Recognizing the Warning Signals

We never saw the downturn coming!! I guess we just weren't looking at the big picture.

No manager should ever have to make this admission. Each and every firm generates financial and operating information which can provide it with the necessary warning signals. However, not all firms use the same signals . . . and each contractor has to decide what would be appropriate for their specific business.

Let's, very briefly, look at some of the signals that firms use; signals which can be broadly categorized as being either economic, project-related, or financial.

Overall local market economy

Many firms—especially the larger ones—closely monitor projections for the local economy as a whole through discussions with regional economists (from academia, banking, etc.) and gather general data on overall market conditions. While this information is always useful, it tends to be rather too generic an approach for most small- and medium-sized contractors that are more concerned with individual clients and situations. As a result, they tend to focus more on specific industry data and information . . . such as the number of cars sold, the production of steel, etc. and on events impacting local firms and businesses.

Dollar backlog

A more company-specific measure of its future "health" is its dollar backlog—representing the amount of business (already awarded the firm) that the company has yet to complete. Just knowing this amount can help management get a sense of where it stands. However, it is better to plot out (either by hand or on a computer) the information for the past two to five years so that management can immediately see what is happening to this key factor. If the backlog begin to decline then, quite obviously, the company has to either generate additional business or cut back

the organization (and hence its costs) to meet the lower expectations.

While this is a familiar and quite effective way of keeping track of the future volume of business, it can be somewhat deceptive and misleading for a number of reasons:

1. This measure tends to be highly sensitive to major fluctuations from month-to-month as individual projects are either completed or added—especially if they are major projects.
2. A firm may be enjoying its largest backlog in history but have virtually no cash flow scheduled for some months to come.

There are a couple of ways of improving the effectiveness of this approach. One is to use what is called a “moving average”. The company calculates its backlog for the current month, adds this figure to those for the previous eleven month, and divides by twelve to get a moving average backlog. Each month, it adds one month to the new figure and drops the corresponding one from the previous year. The advantage of this variation is that it smoothes out the month-to-month fluctuations. Another approach is to project the backlog on a monthly basis rather than as a single figure thus providing greater information as to the likely timing of the revenue.

Project dollar bid/hit rate

This is another measure used by many firms to determine their situation. At the end of each month, the total dollar volume of projects outstanding (i.e. bid but not yet awarded) is calculated and compared with the previous months (again a visual presentation makes it far easier to see any changes).

The major disadvantage with this approach is that simply bidding a project does not mean that the company will be awarded the contract and thus many companies combine the total bid amount with an ongoing “hit rate” (i.e. the percentage of projects awarded to the total number bid). This gives them two different warning signals. If either the total bid amount or the hit rate begin to decline, they are alerted to the possible need to downsize.

Even when combining these two factors, care has to be taken not to be confused by the results. While both the total amount bid

by a firm and its hit rate may be holding steady or even increasing, this may mean nothing more than the fact that the company is bidding more (in, for example, an attempt to enter a new market) and is winning a higher percentage of only the smaller projects. Furthermore, the "hit rate" is a historical figure and, while it shouldn't vary dramatically from month-to-month, it is quite conceivable that it can (resulting, say, from the addition of a new estimator).

Expected value dollar bid estimates

This is a variation on the previous approach in that it replaces the "hit rate" with an estimate of the probability that each individual project will be obtained. This can be best explained with a simple example:

Project	Amount	Probability	Expected Value
Abacus Corp.	\$600,000	25%	\$150,000
Beaver Industries	\$200,000	70%	\$140,000
Caten & Sons	\$400,000	30%	\$120,000
Total expected value			\$410,000

The critical estimate here is the probability that the firm will be awarded the project. Even if it is a negotiated contract with only one bidder, the probability will not necessarily be 100% since the project may never be funded. The common argument against this approach is as follows:

How can I estimate the probability of our getting that project? Your guess is as good as mine. I don't have the slightest idea!!

However, even a guess may be better than nothing. After all, if there are five bidders and no additional information then the probability is 20%. A comment that the firm was one of the top three bids would, normally, result in an increase in the probability to 33%.

The more sophisticated firms go one step further with this approach and conduct a competitive business strategy and analysis. This means that they look not only at the historical bidding history of each of their competitors but also at their likely margins, their current need for additional business, etc. If they are bidding against a firm that has a high cost structure and has traditionally been a high bidder then they will undoubtedly increase the projected likelihood of success.

Income statements and variances

Some firms prefer to rely on their financial statements—such as the income statement—to provide insights as to whether or not there is a need to begin downsizing. By looking (on a monthly or quarterly basis) at total revenues and expenses and at the profit before taxes (both in dollars and as percentages), management can determine what is happening to the company's financial situation . . . and thus whether or not there are trends which suggest the need for action.

Also used in a similar manner are the monthly actual performance versus budget summaries . . . with the emphasis placed on major variances which can highlight serious organizational problems and thus alert management to the need to take action. An advantage of this approach is that the analysis can be conducted on a departmental basis thus more accurately pinpointing operational weaknesses. The main disadvantages of using financial statements to generate warning signals is that (a) they are historical (although not badly so if the analysis is conducted on a monthly basis) and (b) they are subject to both short-term fluctuations and errors.

Comparative industry data

An important addition to the income statements and variances approach is the use of comparative industry data. SMACNA, for example, publishes an annual Financial Survey and Ratios report which enables a member to compare his/her firm's performance with that of other contractors in terms of:

1. General financial ratios—such as the Current Ratio, Acid Test Ratio, Debt to Equity Ratio, Return on Investment, Average Age of Accounts Receivable and Retainage Receivable, Overhead to Materials and To Labor, Working Capital Turnover, and Net Profit before Taxes to Working Capital.
2. Specific industry segment operating expenses and ratios—for firms of a comparable size (under \$1 million, \$1 to \$2 million, \$2 to \$3 million, \$3 to \$5 million, \$5 to \$10 million, and over \$10 million), similar business activities (e.g. Architectural Sheet Metal, HVAC Commercial, Industrial, Mechanical, Residential, Sheet Metal, Sheet Metal & Roofing), and by region (Eastern, Midwestern, Western and Canadian).

Some of the comments made by contractors on their approaches to recognizing the warning signals are given in Example XXV:

EXAMPLE XXV—WARNING SIGNALS

"We (as a company) are extremely dependent upon two major industries and thus follow all announcements from those industries very carefully. The broader national announcements aren't really as important to us."

"I sit down each month with Alan (our marketing manager) and we go over the backlog, dollar bid and hit rate figures. I've been in this business for many years and tend to just look at the totals and compare them in my mind with previous months. Alan is a little more scientific. He came from one of those big, high falutin companies and has it all on his computer. He calculates a series of adjusted backlog figures (which allow him to see what's happening to the trend in terms of the numbers) and plots out both the dollar bid amount and the hit rate. And I must admit that he has picked up some trends and problems which I missed."

"We take a look at the backlog and dollar bid figures on a monthly basis. However, I think the way you control a company is through the financial statements—especially when it comes to the need for downsizing. So, every quarter, I go over the figures very carefully. I look at each of the expenses and see how they stack up against both the previous quarter and the same quarter the year before. Then, usually, I call a staff meeting and we all review the data."

"Each year, we sit down with the SMACNA report (Financial Survey and Ratios) and see what everybody else is doing with businesses similar to ours. We then establish what we call our 'look out!!' ratios which are generally five or ten percent better than the average figures. Then, every month, we look at our figures and compare them with these 'look out!!' percentages. When we start to get close . . . we start to look out!!"

Some suggestions on the key elements of a "warning system"—for all sizes of contractor—are given in Recommendations XI:

RECOMMENDATIONS XI

- Recognize that all firms need at least a simple system for warning them when the company is starting to get into problems.
- At the very least, monitor the company's backlog, dollar bid and hit rate figures . . . and plot these out or show them on the computer.
- Identify those industry (or other statistics) which are specifically relevant to your organization . . . and monitor these figures.
- Consider using techniques such as "moving averages" and "expected value" if you are not already doing so.
- Compare your firm's performance (using the SMACNA report) with that of other firms of a similar size and in a comparable market segment.
- Review your firm's financial data on a monthly or quarterly basis . . . and carefully track the trends in terms of key expense categories.
- Make sure that all members of the management team are involved in the review of the data . . . and that their views are considered in evaluating any course of action.

Understanding the Company's Variable Costs

All costs are variable. It is just that some are more readily variable than others!!

In accounting terms, costs are generally described as being either fixed or variable . . . with fixed costs continuing irrespective of the level of business (e.g. a long-term lease on a building for which the company is liable independent of whether or not it generates any income) and variable costs (e.g. personnel who are hired and fired according to the level of activity).

As suggested by the above quote, however, all costs are variable to some degree and management needs to look at operating expenses—on a line-by-line basis—and determine:

- a. The feasibility of reducing specific expenses.
- b. The speed with which reductions can be implemented, and
- c. The level and nature of the impact resulting from specific reductions.

The feasibility of reducing specific expenses

The expenses of an organization—from a cost-cutting perspective—can generally be considered as falling into one of three different categories. They can be:

1. "Eliminated"—these are expenses which can be totally eliminated by the stroke of a pen. Included in this category are expenditures for travel and entertainment, the rental of automobiles, equipment, office space, etc. (provided any legal requirements have been satisfied), salaries and benefits paid to employees (as a result of termination), etc.
2. "Reduced"—included in this category are expenses which cannot be totally eliminated but which can be substantially reduced by imposing strict expenditure requirements; expenses such as phone and mail charges, supplies and materials, etc. Other expenses such as salaries can be reduced by withholding bonuses or part of the base payment, or by placing individuals on part-time.
3. "Left untouched"—in this category fall expenses such as the mortgage on the building, long-term leases, etc. where the cost of "escaping" from the legal commitment would be either extremely time-consuming or financially severe. Of course, in a worst case scenario, even these costs become variable.

The speed with which reductions can be implemented

Some expenses can be reduced immediately while others take anywhere from a couple of weeks to many months or years before the impact is finally felt. Again, these can be characterized in the following terms:

1. "Immediate impact"—expenses associated with the purchase of facilities and new equipment and the hiring of new personnel, etc. can be frozen (unless legal liabilities have already been incurred or an emergency situation arises). No further expenditures are made until the company's financial situation is improved.
2. "Short-term impact"—in this category are those expenses categories in which action will be rapidly recognized. The termination of a secretary or accounting clerk with two week's notice will soon be felt as will the implementation of strict policies with respect to travel and entertainment,

the purchase of office supplies, and telephone calls . . . and the elimination of the payment of planned bonuses, a hold-back of part of the salary of the managers, etc.

3. "Long-term impact"—a decision to eliminate the provision of leased cars to the managers, eliminate their memberships in local clubs, or discontinue the box at the local football stadium will take considerably longer to have any substantial impact on the bottom line . . . as will be the decision not to renew the lease on a building.

The impact of specific actions—level and nature

This is clearly the most important of the three concerns. Some steps can be taken quite easily and have a substantial and immediate impact on the bottom line. However, the long-term effect on the company and its ability to compete may be severe.

A secretary, for example, can probably be terminated with little more than two weeks notice and the savings will rapidly impact the bottom line. However, this action will have some negative consequences since it will leave a gap in the company's supporting services . . . and this could be critical if the company needs to generate numerous reports in the near future.

Terminating a senior manager with many years of experience will save considerably more than the cost of a secretary. It will also take rather longer to implement since the company may be obliged to carry the salary and benefits for three to six months (depending upon the nature of the individual's contract). However, the "gap" left may be considerably greater and replacing him or her may be far more difficult. Furthermore, the absence of this individual may make the company less competitive on upcoming projects.

Similarly, the lease on all the company's cars can be canceled with one phone call. While this has the potential for substantial cost savings and will probably not have a great impact on the performance of those enjoying the cars, it will almost certainly result in an immediate bill for the pay-off of the leases . . . and a potential law suit.

In most companies, there are expense categories which can be readily reduced without having serious impacts. Travel and entertainment budgets can be dramatically reduced for a period

of time. All hirings, wage increases, bonuses, etc. can be frozen. Company expenditures on supplies and telephone expenses can be limited. And repairs or improvements can be postponed.

Some comments on understanding the company's variable costs are given in Example XXVI:

EXAMPLE XXVI—UNDERSTANDING VARIABLE COSTS

"Each year, we conduct an expense analysis . . . and try to categorize each of the major expenses as to whether it is fixed or variable. Everybody agrees that some are definitely fixed and others are variable. But we argue over the majority which fall somewhere in the middle. However, at the end of the process, we have a clear understanding as to which expenses we can cut if business declines."

"When business looks as if it is going to fall off, we (along with a consultant from the local college) develop a number of scenarios and reactions. My partners and I play 'what if . . .?'. What do we do if the backlog drops by ten percent, twenty percent and thirty percent? And what steps do we take?"

As indicated in Recommendations XII, a manager needs to have a sound understanding of the company's cost structure . . . and the possible downsizing opportunities. Management has to look carefully at the alternatives, weigh its options, and determine the likely impact of specific actions.

RECOMMENDATIONS XII

- Conduct a periodic analysis of the firm's fixed and variable costs . . . and carefully monitor the percentage of fixed costs.
- Evaluate each of the cost categories in terms of the potential for cost-cutting . . . taking into the consideration the likely impact of such reductions on the both short- and long-term capabilities of the firm.
- Develop a series of action steps (in terms of cost cutting) to be put into action if the warning signs appear.
- Make sure that all management personnel are involved in the establishment of the courses of action . . . and understand that these measures will be implemented automatically.

Implementing Appropriate Steps

There is little to be gained by having an elaborate "warning system" and a series of contingency plans if management doesn't take action. And taking action is often the difficult part since a manager is invariably torn between the hope that the situation will turn around (and that one should be positive about the future) and the realization that the longer he/she delays taking action the more likely it is that the company will suffer a serious setback.

Different firms have different approaches—as shown in Example XXVII:

EXAMPLE XXVII—TAKING ACTION

"I don't think we really consciously think about downsizing. We are always very sensitive to what is happening in our marketplace and are continually 'trimming our sails' to maintain the right balance between our resources and the level of business opportunities. We prefer to adjust on an ongoing basis rather than wait for a crisis situation."

"Up until last year, I would say that we followed a policy of adjusting our expenses every three months. We'd get together and take a look at the projections for the next six months . . . and adjust our game plan accordingly. That was fine up until last year when, almost overnight, the bottom dropped out of our business. Our backlog dipped alarmingly and we concluded that there were no new projects on the horizon. So, we were forced into a crash program. We looked at all our expenses and cut wherever we could . . . people, salaries, benefits, etc. They all went."

"As part of our strategic plan, we have a set of contingency plans. If X happens then Y occurs. It is a good idea because you can develop the plan of action when you have the time to look at things objectively. You aren't under the gun to come up with an immediate course of action."

No two firms will react to the need to downsize in exactly the same way. Each firm's situation is unique . . . and thus there can be no standard recommendations as to a course of action. However, the course of action followed by one firm is given in Recommendations XIII:

RECOMMENDATIONS XIII

- Delay or postpone all new hirings and capital investments—unless critical to the ongoing survival of the company.
- Speed up the retirement and/or termination of individuals whose employment is coming to an end.
- Postpone all payments to personnel other than those comprising their base salary or income.
- Implement a freeze on travel and entertainment expenses.
- Drastically reduce or freeze expenditures on purchases of supplies, materials, telephone calls, etc.
- Lay off line personnel directly involved in production and installation—in those departments or divisions experiencing (or projected to experience) a downturn.
- Speed up collections and slow down payments . . . in order to build up the company's financial resources.
- Sell off unutilized assets . . . in order to generate cash flow.
- Terminate or postpone all non-essential programs and activities.
- Lay off support personnel or reduce their involvement to part time.
- Replace company assets by leased or rented facilities and equipment.
- Cut back on core personnel . . . terminating first those whose role is least crucial to the long-term survival of the company.

The extent to which a firm can downsize depends on two key factors:

1. Its basic condition (i.e. is it "lean and mean" or does it have a lot of "fat"), and
2. The degree to which management perceives the future as favorable or unfavorable . . . and thus the extent to which it feels a pressure to downsize.

Many successful contractors in the 90s have a "lean and mean" philosophy. They believe, rightly so, that their ability to compete is a function of keeping their costs to a minimum. As a result, their employees generally work long hours so that the company can function with very few additional personnel (other than, as suggested in Chapter 2, having one or two people in training for

advancement). These firms will, of course, have far less potential for short-term reductions than a firm which is heavily overstaffed.

Furthermore, if management feels that the market slowdown will be relatively mild and of short duration then it may choose to hold on to all its core personnel in the expectation that they will be fully employed again in the very near future. On the other hand, if the bottom is about to drop out of the local market for an extended period of time (and the company isn't able or doesn't want to risk taking on business in other geographic areas) then the downsizing program has to be much more drastic.

Conclusion

Downsizing is an activity (designed to maximize the effective utilization of the company's resources) which becomes vitally important when data and information suggest that revenues are likely to decline (either for the company as a whole or in a particular department or division) and that actions need to be taken to bring costs and expenses into line with the projected revenues.

Successful contractors are those which handle downsizing as a key element of their regular planning and review process and utilize the various steps suggested in Recommendations XIV:

RECOMMENDATIONS XIV

- Establish procedures—using one or more of the suggested techniques—for projecting and evaluating the future of the company.
- Conduct a monthly analysis of the company's "health" making use of the various "warning signals."
- Evaluate the nature of the company's costs on a line-by-line basis . . . and thus determine not only the feasibility of specific downsizing steps but also the short- and long-term impacts.
- Estimate the nature, severity and length of the potential downturn in the local economy.
- Take action in a systematic and timely manner . . . and, wherever possible, avoid crisis management.

Rashness (i.e. taking unnecessary action) is not recommended. However, neither is failure to take action when it is needed. The

successful contractors are those that are able to continually modify and shift the organization so that it is in balance with the marketplace around them.

Some Final Thoughts

As the reader will have gathered from the previous pages, successful management of a contracting company is not an easy task. The external environment is continually changing with the resulting flow of good news and bad news. One phone call (especially for small- and medium-sized firms) can often make the difference between a great year and a disastrous one. And internally, there is a continual change of personnel and projects.

Unfortunately, they are no "secrets" to success: Instead, there are four key elements:

1. Planning and looking ahead to see what is coming.

It is vitally important that managers take a thoughtful and long-term approach to the business and not become bogged down in minor, day-to-day operations. It is all too easy to focus on putting out fires and ignore the need to look ahead and plan for the future.

2. Handling the organizational growing pains effectively during the good years.

The good years are, hopefully, when the firm builds up its resources to carry the firm through the lean years (and few firms are immune from the periodic downturn in their markets). It is critically important, therefore, that these years not be wasted. Growth and expansion place severe pressures on both a company's people and its financial resources and these need to be carefully planned and handled. Furthermore, too often, essential activities (such as marketing and new business development, communications, etc.) are forgotten . . . and the "good years" can become a nightmare.

3. Avoiding foolish project-related mistakes.

Managers, like everybody else, are generally excited by the prospect of a new project or opportunity. Chasing business (and getting it) is exciting. And thus it is very easy to commit the company to projects which are really beyond the firm's capabilities (either in terms of size or scope or location). The successful manager avoids such temptations. By contrast, performing the work is less stimulating. It involves days of time consuming work and, often, frustration. As a result, it is easy to let the quality slide and lose sight of the bottom line.

4. Taking action . . . especially when faced with a declining marketplace.

Looking ahead is important because there will usually be warning signals. Then, when the future doesn't look too bright, a manager has to be prepared to analyze the situation and take appropriate action. It is all too easy to let matters drift and then look back and see what might have been done. The successful manager recognizes the realities of the situation and implements a game plan.

A company rarely has only one single problem at any one time. Even when management identifies just one major problem, a consultant will invariably discover that, in reality, there are a number of interrelated problems which cannot be resolved individually. They have to be looked at and tackled as part of an integrated plan . . . an overall approach to the business of being in business.